

FDIC State Profile

FALL 2003

Arkansas

Employment conditions in Arkansas may be stabilizing.

- Arkansas lost more than 9,000 jobs since employment peaked in first quarter 2000. However, during the first two quarters of 2003, employment grew by several thousand jobs on a year-over-year basis, suggesting employment conditions in the state may be stabilizing (see Chart 1). This stands in contrast to on-going job losses for the nation. Employment increased slightly in many sectors, except for manufacturing; the majority of new jobs were added in the education and health services, leisure and hospitality, and finance insurance and real estate sectors.
- The manufacturing sector lost more than 12,000 jobs during 2002, slightly less than during the previous year. Structural and cyclical weaknesses have contributed to job losses, particularly in the sub-sectors of industrial machinery and equipment, textiles and apparel, lumber and wood products, and paper and allied products. In contrast, employment has remained relatively stable in the food products sector.
- Employment conditions are generally better in the state's metro areas, because of lower exposure to the manufacturing sector. A notable exception is the **Fayetteville** MSA, which boasts the strongest economy in the state, despite having a concentration in the manufacturing sector that is roughly equivalent to the entire state (see Table 1). In addition, this metro area is headquarters to Wal-Mart and Tyson, two key employers in the state.
- Rising debt levels, slowing income growth and job losses contributed to a rise in personal bankruptcy filings (see Chart 2). Arkansas ranked fifth in the nation in total bankruptcy filings as of first quarter 2003.
- The weak economy has strained the budget of state and local governments in Arkansas, which together provide more than 15 percent of total non-farm employment. A projected \$150 million state budget deficit for 2004 may result in tax increases or significant cuts in services or employment. However, a \$20 billion federal aid package may help the state meet a mandatory balanced budget requirement without implementing these cuts.

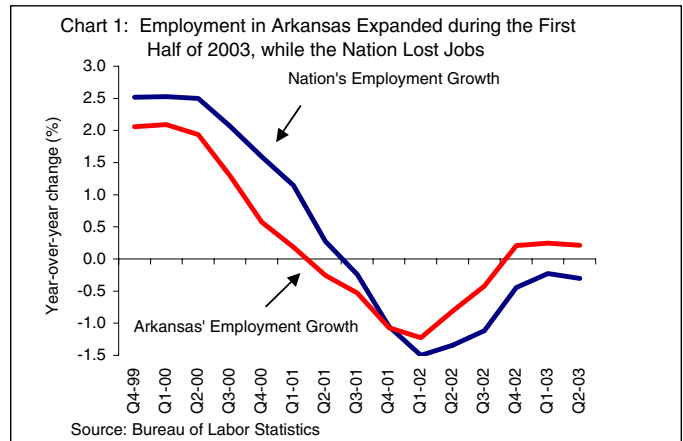
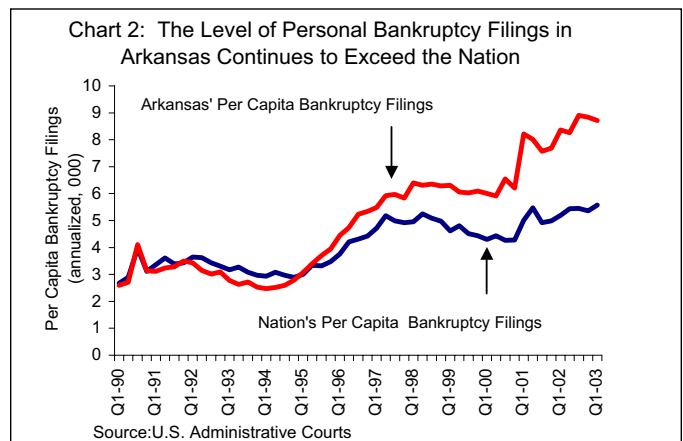


Table 1: Most Metro Areas Have Lower Unemployment Rates than the State

MSA	Q1-03 (%)	Q2-03 (%)
Arkansas	4.9	5.5
Fayetteville	2.6	2.7
Ft. Smith	5.2	4.9
Jonesboro	4.5	4.3
Little Rock	4.4	4.5
Pine Bluff	8.7	8.5
Texarkana	5.2	5.2

Source: Bureau of Labor Statistics



State Profile

Asset quality weakness remains a concern as past-due levels increase.

- The median past-due and nonaccrual loan ratio for insured institutions based in Arkansas rose 50 basis points to 3.34 percent between fourth quarter 2002 and first quarter 2003 continuing a long-term seasonal pattern.¹ However, the current ratio is the highest quarterly figure since first quarter 1991.²
- More than 40 percent of the insured institutions based in the state reported past-due loans that were at least 4 percent of total loans as of March 31, 2003, the highest percentage of institutions since first quarter 1991 (see Chart 3).

Coverage levels increased in first quarter 2003.

- Insured institutions headquartered in Arkansas responded to rising delinquencies in 2002 by increasing allowance levels relative to total loans and past-due loans.
- Reserve levels were 1.37 percent of total loans in first quarter 2003, up from 1.29 percent one year ago. Coverage of nonperforming loans increased from 1.16 times to 1.22 times during the same period (see Chart 4).

Increased provisions and margin compression may contribute to a decline in insured institution earnings.

- The median net interest margin (NIM) for insured institutions headquartered in Arkansas was 4 percent in first quarter 2003, relatively unchanged from one year ago and slightly down from year-end 2002 (see Chart 5). Interest spreads widened early in the third quarter; should this continue, NIMs likely will increase.

Chart 3: Credit Problems Remain a Concern for Insured Institutions in Arkansas

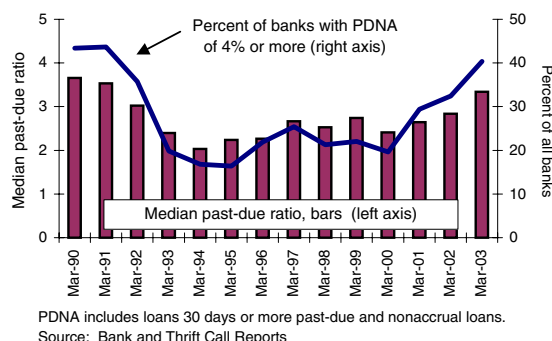


Chart 4: Coverage Levels Slightly Increased Among Insured Institutions in Arkansas

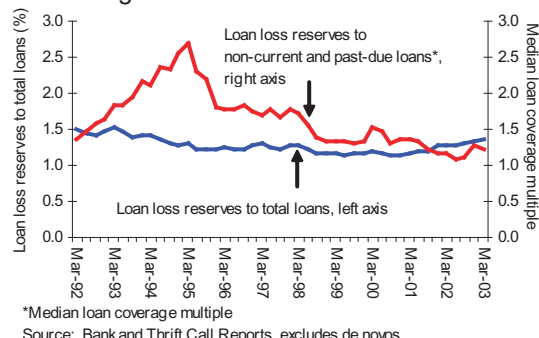
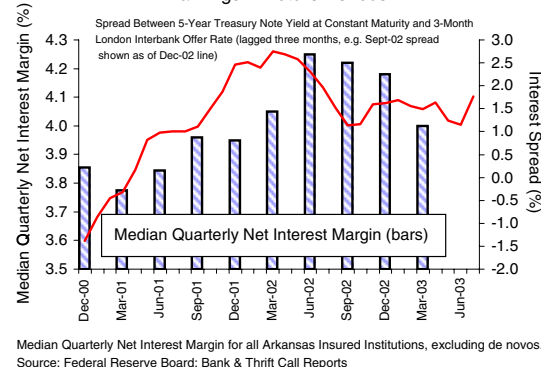


Chart 5: NIMs Declined but Widening of Spreads May Boost Earnings in Future Periods



¹ The greatest quarterly increase in the median past-due loan ratio occurred in commercial and industrial loans (47 percent increase) and agricultural loans (18 percent increase). In contrast, median past-due levels declined for consumer loans including one-to-four family mortgages.

² The median past-due and nonaccrual ratio for insured institutions based in Arkansas reached 3.5 percent in first quarter 1991.

State Profile

Arkansas at a Glance

General Information	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Institutions (#)	176	182	194	204	213
Total Assets (in thousands)	36,104,369	31,915,205	29,611,632	29,004,501	28,849,124
New Institutions (# < 3 years)	3	5	8	10	11
New Institutions (# < 9 years)	16	17	19	23	25
Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Tier 1 Leverage (median)	9.51	9.16	9.40	9.43	9.25
Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Past-Due and Nonaccrual (median %)	3.34%	2.84%	2.64%	2.41%	2.74%
Past-Due and Nonaccrual >= 5%	42	46	36	27	33
ALLL/Total Loans (median %)	1.37%	1.28%	1.18%	1.17%	1.17%
ALLL/Noncurrent Loans (median multiple)	1.25	1.17	1.41	1.56	1.35
Net Loan Losses/Loans (aggregate)	0.39%	0.35%	0.24%	0.15%	0.19%
Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Unprofitable Institutions (#)	8	7	13	12	14
Percent Unprofitable	4.55%	3.85%	6.70%	5.88%	6.57%
Return on Assets (median %)	1.13	1.10	1.01	1.13	1.13
25th Percentile	0.78	0.74	0.65	0.78	0.78
Net Interest Margin (median %)	4.01%	4.05%	3.77%	4.06%	3.94%
Yield on Earning Assets (median)	6.16%	6.85%	8.23%	7.82%	7.65%
Cost of Funding Earning Assets (median)	2.07%	2.79%	4.39%	3.82%	3.71%
Provisions to Avg. Assets (median)	0.19%	0.20%	0.16%	0.11%	0.13%
Noninterest Income to Avg. Assets (median)	0.71%	0.69%	0.69%	0.64%	0.62%
Overhead to Avg. Assets (median)	2.77%	2.64%	2.74%	2.66%	2.62%
Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Loans to Deposits (median %)	74.55%	74.09%	74.87%	71.71%	67.70%
Loans to Assets (median %)	60.71%	61.50%	62.31%	60.59%	58.63%
Brokered Deposits (# of institutions)	42	38	51	31	26
Bro. Deps./Assets (median for above inst.)	5.04%	2.59%	3.16%	2.75%	1.32%
Noncore Funding to Assets (median)	23.75%	23.28%	24.06%	20.98%	19.06%
Core Funding to Assets (median)	64.71%	65.19%	65.11%	67.26%	69.00%
Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
State Nonmember	104	110	115	119	127
National	42	40	40	47	52
State Member	22	23	30	28	23
S&L	3	3	3	4	5
Savings Bank	5	6	6	6	6
Mutually Insured	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	129	17,397,044	73.30%	48.19%	
Little Rock-N Little Rock AR	18	5,220,481	10.23%	14.46%	
Fayetteville-Springdale-Rogers AR	12	7,344,268	6.82%	20.34%	
Ft Smith AR-OK	7	3,044,182	3.98%	8.43%	
Jonesboro AR	5	1,618,713	2.84%	4.48%	
Pine Bluff AR	3	1,232,399	1.70%	3.41%	
Memphis TN-AR-MS	2	247,282	1.14%	0.68%	